

City of Asheville, North Carolina



*Fiscal Year ended June 30, 2002
Comprehensive Annual Financial Report
with Single Audit Compliance Supplements*

City of Asheville, North Carolina

**Comprehensive Annual Financial Report
With Single Audit Compliance Supplements**

Fiscal Year Ended June 30, 2002

Prepared by the Finance Department

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Asheville,
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Imelda Cruz
President

Jeffrey L. Esser
Executive Director

CITY OF ASHEVILLE

COMPREHENSIVE ANNUAL FINANCIAL REPORT JUNE 30, 2002

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**CITY OF ASHEVILLE
ORGANIZATIONAL CHART**

CITIZENS OF ASHEVILLE

CITY COUNCIL

*Charles R. Worley, Mayor
Terry M. Bellamy, Vice Mayor
Joe Dunn
Jim Ellis
Holly Jones
Carl Mumpower
Brian Peterson*

City Manager

City Clerk

City Attorney

Human Resources

Finance

Engineering

Civic Center

Building Safety

Planning & Development

Police

Public Works

Fire & Rescue

Parks & Recreation

Transit Services

Water Resources

October 31, 2002

Honorable Mayor
Members of City Council
City of Asheville
Asheville, North Carolina

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of Asheville for the fiscal year ended June 30, 2002. The financial statements and supplemental schedules contained herein have been audited by the independent, certified public accounting firm of Crisp Hughes Evans LLP, and that firm's unqualified opinion is included in the Financial Section of this report. The report itself, however, is presented by the City, which is responsible for the accuracy of the data and for the completeness and fairness of its presentation including all disclosures. We believe the data as presented is accurate in all material respects; that it is presented in a manner designed to set forth fairly the financial position and results of operations of the City as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

This report is divided into three sections: the Introductory, Financial and Statistical. The Introductory Section, which is unaudited, contains this letter of transmittal and information about the City's organization and principal officials. The Financial Section is composed of the independent auditors' report, the general purpose financial statements (GPFS), and the combining and individual fund and account group financial statements and schedules. The general purpose financial statements are often issued separately for securities offerings or widespread distributions and are frequently referred to as "liftable" general purpose financial statements. Finally, the Statistical Section, which is unaudited, contains fiscal and economic data designed to provide a more complete understanding of the City. Many tables in this section present financial data for the past ten years.

The financial reporting entity includes all the funds and account groups of the City of Asheville (primary government), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations and, as such, are included in the reporting entity. The Asheville Public Financing Corporation and the Asheville Claims Corporation are reported as blended component units. These organizations have no assets or liabilities and are not presented in the General Purpose Financial Statements. The Asheville Alcoholic Control Board is reported as a discretely presented component unit and is presented in a separate column in the general purpose financial statements to emphasize that it is legally separate from the primary government and to distinguish its financial position, results of operations and cash flows from that of the primary government.

ECONOMIC CONDITION AND OUTLOOK

The City of Asheville, with a population of 69,726, comprises an area of approximately 42 square miles in Western North Carolina. Asheville is the regional center for manufacturing, transportation, health care, banking, professional services and shopping. The City is the county seat of Buncombe County, the largest city in Western North Carolina and the tenth largest city in the State. Asheville is nestled between the Blue Ridge and Great Smoky Mountains and located astride the French Broad and Swannanoa Rivers. The City is surrounded by lush mountains, many with elevations above 5,000 feet.

Recreational opportunities abound in the Asheville area with approximately 16% of the region's area designated as public or recreational. The Biltmore Estate, George Vanderbilt's 19th century estate comprises over 8,000 acres just outside the city limits. The Blue Ridge Parkway is also headquartered in Asheville. The City also has a strong historic preservation program. This assistance in the preservation of downtown housing and historic structures has created a truly unique and vibrant urban atmosphere in downtown Asheville.

Asheville's natural and architectural beauty, moderate climate, strong job market and outstanding educational and health care facilities make it one of the most attractive locations in the United States. Asheville is consistently ranked high among the best places to live, work and retire. The City's long-range planning is directed toward preserving this area's high quality of life, so that it shall remain one of the "best places."

The economy is diverse, with strong representation in manufacturing, distribution, health care, retail trade and tourism. In the fiscal year ending June 30, 2002, the Asheville Metropolitan Statistical Area (MSA) had a civilian labor force of 112,300 with total employment of 107,300. Throughout the past year unemployment has averaged 4.6 percent and the rate for June 2002 was 4.5 percent. In the goods producing sector, yearly employment has increased slightly to 25,650 employees. During that same period, the service-producing sector continued to grow to a total of 95,775 employees. Over 20 Fortune 500 firms have facilities in the Asheville MSA. Manufacturing employment represents over 16.3 percent of the non-agricultural civilian labor force. Asheville's manufacturing base has continued to evolve from labor-intensive, resource-oriented operations to more capital-intensive, highly skilled work force industries composed of fabricated metal products, machinery, automotive and electrical components, precision instruments, plastics and textiles. The health care sector continues as the fastest growing sector of the economy with strong prospects for sustained expansion in the future. This sector represents approximately 15,000 employees. The retail trade sector is dominated by two malls and over 4,000 small businesses with MSA total retail sales of \$1.39 billion for the year ended June 30, 2002. Tourism continues to be an important sector of the economy with revenues of approximately \$569 million annually. This decrease of approximately 25% from last year is attributed to fear of travel as a result of the events of 9/11/01.

The construction sector within the City has been impacted by the economy slow down. Building permits totaling over \$142.5 million (\$99.9 million commercial and \$42.6 million residential) were issued during calendar year 2001. This compares with a total of 147 million for all of 2000. Construction activity has remained steady throughout the first half of 2002, with over \$83.6 million permits issued (65.8 million commercial and \$17.8 million residential).

This fiscal year the City of Asheville, along with all municipalities in North Carolina, had to adjust to a major revenue shortfall. To balance its budget, the State of North Carolina withheld local government reimbursements. The approximately \$3 million dollars withheld from the City significantly impacted our budget/operations. This revenue loss, coupled with a slow economy and drastically reduced interest rates, presented a special operational challenge. To successfully meet this challenge, the City implemented a hiring freeze, restricted training and travel, postponed several capital projects and put a cap on operating budgets.

MAJOR INITIATIVES

In 2000, the City annexed six areas into the City, with a total potential increase to the property tax base of \$198,640,700. Of these six areas, challenges to the validity of the annexation has been raised with respect to two of them, and they are still pending in court. The effective date of the annexation for the remaining four areas was July 1, 2001. In 2001, the City annexed five areas into the City with a total potential increase to the property tax base of \$31,036,900. There were no challenges to the validity of these annexations, and their effective date will be July 1, 2002. The City continues to study areas for annexation, and anticipates additional annexations within the next three years. In July of 2002, the City annexed seven areas into the City, with a total potential increase to the property tax base of \$68,256,500. One of these annexations has been challenged; the effective date for the other six annexations is July 1, 2003. In the Spring of 2002, the City adopted a resolution of consideration, which will shorten the time required to complete involuntary annexations commenced in 2003, but it has not taken any other statutorily require steps to proceed with involuntary annexation of any particular area in 2003.

Capital Improvements Program. The City's formal Capital Improvements Program, now in its sixteenth year, contains a Street and Sidewalk Improvement Plan and a General Capital Improvements Plan. The program is funded by dedicated ad valorem tax revenues, debt funding, a portion of the state shared gasoline tax, a portion of local option sales tax, water system and parking system revenues and fees on sales of tickets for Civic Center events. The program provides for planned improvement to City facilities and infrastructure, the replacement of capital equipment and earmarks funding requirements for the upcoming year plus five future years. Also included is an ongoing Parks and Recreation General Capital Projects Program. The program is funded by a one-cent increase in the property tax rate in order to provide added funding for annually-specified

parks and recreation capital improvements. The program is directed toward high priority projects which were identified in the Parks and Recreation Master Plan.

The ongoing Street and Sidewalk Improvement Plan calls for refurbishing and maintaining City streets and sidewalks. Initially funded by citizen approval of \$17 million bond referendum in September 1986, the plan is entering its sixteenth year of operation. Ongoing funding from dedicated revenues, plus annual contributions from the General Capital Reserves Fund (\$745,000 in FY 2002) have enabled the Public Works Department to provide regular maintenance and prevent deterioration.

Despite the challenges caused by the State of North Carolina's withholding of local governments' reimbursements, the city has been able to sustain its commitment to continued capital improvements, although at a somewhat reduced rate. During the past year, the City has continued an ongoing program of incremental improvements to its parks and recreation facilities. The renovation of Pritchard Park, which is located in the heart of the City's downtown commercial district, has been completed and along with City-financed improvements to the surrounding streets, sidewalks and streetscapes is serving as the catalyst for greater public participation, expanded retail and entertainment venues and a general upgrade of the area. Modernization of both the general purpose and special vehicle fleets has continued through replacement of vehicles as they approach the end of their economical service life. Vehicle replacement schedules have been significantly delayed because of State revenue withholds; however, the City has continued its transition to automated trash pickup and during the past year has purchased two additional side-arm automated sanitation trucks and approximately 8,000 compatible trash cans. This past year also saw the City initiate a multi-year program to replace aging components of its 800 MHz radio system. That first increment included 143 portable radios for public safety, 6 control stations for the Fire Department and a console for Water Maintenance.

Essential improvements, including renovation of air handlers, locker rooms and offices and acquisition of a basketball floor, have continued to be made to the Civic Center. Several proposals for extensive renovation and modernization to the Civic Center's facilities have been put forward and an ongoing dialogue is underway to determine the best course of action to address the City's future sports/concert venue, stage production, trade show/convention, banquet and associated needs. One of the greatest challenges to implementation of any substantial Civic Center renovation initiative will be identifying, enacting, implementing and earmarking an adequate revenue source to meet anticipated debt service requirements.

Extensive improvements have continued to be made to the water production and distribution system during the past year. The most significant among the many water system projects are improvements to the Bee Tree Reservoir dam's spillway, which are now nearing completion.

Also of special note is the eagerly anticipated reopening, in August 2002, of the Grove Arcade with 70 public market retail units on the first floor, plus prime office space and 47

residential units on the upper floors. This project is a model of public-private cooperation with the City of Asheville providing financing for the public market portion of the project and over \$450,000 in infrastructure improvements to the surrounding sidewalks and public spaces; the Grove Arcade Public Market Foundation orchestrating the entire project and developing and managing the public market segment; and Progress Energy financing and developing the upper floors of the facility. The rebirth of this historic 269,000 square foot facility will anchor the western edge of the downtown area and foster further development of the surrounding area.

FINANCIAL INFORMATION

The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording and summarizing all governmental financial transactions and balances in a single accounting entity. Therefore, from an accounting and financial management viewpoint, a governmental unit is a combination of several distinctly different fiscal and accounting entities, each having a separate set of accounts and functioning independently of each other.

Each accounting entity is accounted for in a separate “fund.” A fund is defined as a fiscal accounting entity with a self-balancing set of accounts, recording cash and other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on special activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The various funds and account groups of the City have been classified into fund categories and types as follows:

CATEGORY	TYPE
Governmental	General, Special Revenue, General Capital Projects
Proprietary	Enterprise, Internal Service
Fiduciary	Trust and Agency
Account Groups	General Fixed Assets, General Long-Term Debt

A brief description of each fund type is found in Note 1 to the Financial Statements.

The City’s general governmental operations are reported on the modified accrual basis, whereby revenues are recognized when measurable and available and expenditures are recognized when goods and services are received. Accounting records for the City’s proprietary operations are reported on the full accrual basis.

In developing and evaluating the City’s accounting system, strong consideration is given to the adequacy of the internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of accounting records for preparing financial statements and maintaining

accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgment by management.

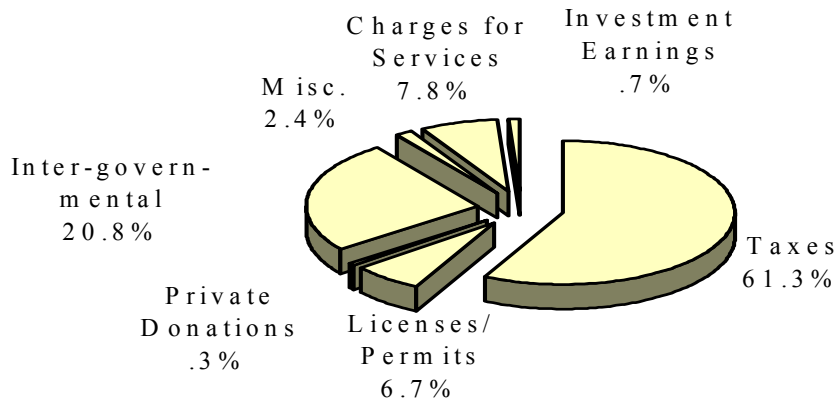
All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of properly recording financial transactions.

Budgeting Controls. North Carolina General Statute 159.8 requires all governmental units in the state to adopt a balanced budget by July 1 of each year. The budget amounts reflected in the accompanying financial statements represent the budget as amended to statement date. The City maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Capital projects funds and grant funds are budgeted, as permitted by statute, for the life of each individual project. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by fund or project total. For internal management purposes, the budget is detailed and compared to expenditures and encumbrances by line item within each department or project. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year end. However, encumbrances are reappropriated in the following year's budget. Budgetary control is also facilitated by the use of an automated employee position classification system, which requires that every permanent position be budgeted.

General Government Revenues. Revenues for general government functions (General, Special Revenue, Capital Project Funds and Fiduciary Fund types) amounted to \$64,985,400 for the fiscal year ended June 30, 2002. Revenue amounts and percentage increases (decreases) in relation to prior year revenues are shown in the following schedule:

Revenue Sources	Amount (In thousands)	Percent of Total	Increase (Decrease) from 2001 (In thousands)	Percent of Increase (Decrease)
Taxes	\$40,046	61.3	\$ 1,289	3.3
Licenses & Permits	4,417	6.7	(256)	(5.5)
Intergovernmental	13,584	20.8	(3,429)	(20.2)
Charges for Services	5,103	7.8	156	3.2
Investment Earnings	439	.7	(588)	(57.2)
Private Donations	171	.3	123	25.6
Miscellaneous	<u>1,562</u>	<u>2.4</u>	<u>436</u>	38.7
Total	<u>\$65,332</u>	<u>100.0</u>	<u>\$(2,269)</u>	(3.4)

The following represents the percentage breakdown of general government operating revenues in graph form:

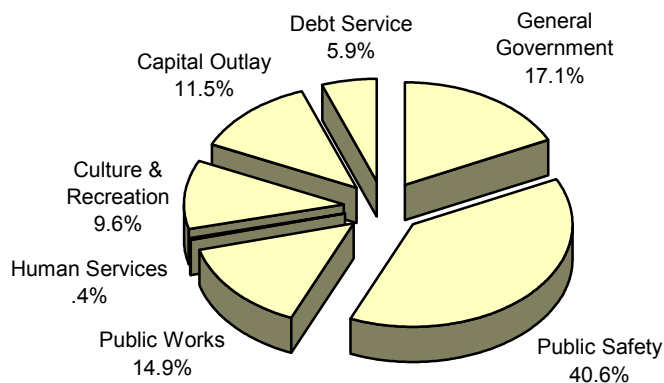


Tax revenues are comprised of three distinct sources: property taxes, sales taxes and franchise taxes. Ad valorem property taxes, representing the largest single source of City revenue, increased by \$968,946 over the preceding year from \$27,961,571 to \$28,930,517 representing an increase of 3.5 percent. For FY 2002, this revenue was based on a tax rate of 56 cents per \$100 valuation. North Carolina law requires all real property be revalued at least octennially. Buncombe County, in which Asheville is located, has chosen to conduct revaluations every four years. All real property in Buncombe County was revalued in 2002. The local option sales tax collection amounted to \$11,115,723 as compared to the previous year's \$10,795,398 - an increase of \$320,325 up 3.0 percent from last year. The State collects local option sales taxes which total 2.0 percent and distributes the proceeds quarterly to local units of government. The distribution requires that 1.0 percent be distributed back to the point of sale while the remaining 1.0 percent is distributed statewide based upon population. The utilities franchise tax collection amounted to \$2,199,610, as compared to the previous year's \$4,162,306, a decrease of \$1,962,696 down 47.2 percent from last year. The State taxes electric, gas and telephone companies in addition to the State sales tax. From these proceeds, local units of government are entitled to a quarterly distribution amount which equals the proceeds of a tax of approximately 3.1 percent of gross receipts arising from sales within the city or town limits. Utilities franchise tax and inventory exclusion tax make up the bulk of State withheld revenues. Intergovernmental revenues amounted to \$13,583,853 as compared to previous year revenues of \$17,012,846 a decrease of 20.2 percent over last year. Investment earnings amounted to \$439,226 as compared to previous year's revenues of \$1,026,584, a decrease of 57.2 percent over last year. This decrease in general government funds' earnings is a result of a reduction in funds available for investing and decreasing interest rates. Private donations increased by \$122,991, from \$48,425 to \$171,416. The cause of this increase was primarily due to the public's involvement in Parks and Recreation projects such as the Skateboard Park.

General Government Expenditures. Expenditures for general government purposes, consisting of the General, Special Revenue, Capital Project Funds and Fiduciary Fund types totaled \$66,953,108 for the fiscal year ended June 30, 2002. Increases/decreases, in the amounts and percentages of expenditures for major functions of the City over the preceding year, are shown in the following schedule:

<u>Expenditure Classifications</u>	<u>Amount (In thousands)</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from 2001 (In thousands)</u>	<u>Percent of Increase (Decrease)</u>
General Government	\$11,443	17.1	\$ (484)	(4.1)
Public Safety	27,185	40.6	1,193	4.6
Public Works	10,005	14.9	371	3.9
Human Services	244	.4	104	74.2
Culture & Recreation	6,446	9.6	(922)	(12.5)
Capital Outlay	7,667	11.5	(751)	(8.9)
Debt Service	<u>3,963</u>	<u>5.9</u>	<u>291</u>	7.9
Total	<u>\$66,953</u>	<u>100.0</u>	<u>\$ (198)</u>	(.3)

The following represents the percentage breakdown of major general government expenditures in graph form:



The increase in Public Safety is a direct result of an increase in Police staffing. The increase in Human Services and Public Works is due to increased activity in the Section 108 Rehabilitation Fund and the purchase of new equipment respectively.

Proprietary Activities. There are five separate proprietary activities accounted for in the City's enterprise funds; Water Resources, Civic Center, Parking Services, Festivals and Mass Transit. The Water Resources Fund had fund equity of \$68,434,694 as of June 30, 2002, compared to \$64,483,567 in the preceding year. The Civic Center Fund had a fund equity of \$3,802,129 as of June 30, 2002, compared to \$4,132,075 in the preceding year.

Parking Services Fund had a fund equity of \$5,679,779 at June 30, 2002 compared to \$4,737,952 in the preceding year. The Festivals Fund had a fund equity deficit of \$34,093 as of June 30, 2002 compared to earnings of \$58,318 in the preceding year. This deficit was due to reduced funding from the General Fund. The Mass Transit Fund had June 30, 2002 fund equity of \$2,648,616 as compared to \$2,532,221 in the preceding year.

The City uses four internal service funds to account for the activities of its Print Shop, Fleet Management, Central Warehousing and Risk and Benefits Management funds. At June 30, 2002, the Print Shop Fund had a deficit fund equity of \$324,744. The deficit will be reduced by increased interfund charges. The Fleet Management Fund had deficit fund equity of \$31,321. Increased control over inventory and interfund charges should eliminate this deficit. The Central Warehousing fund had a fund equity of \$681,343 as compared to \$685,225 in the preceding year. The Risk and Benefits Management Fund had a deficit fund equity of \$1,233,262. The deficit results primarily from the liability for claims incurred but not reported as June 30, 2002. All actual known claims at June 30, 2002 are fully funded. The liability for incurred but not reported claims will be funded from increases in the City's contributions and employee rate increases for dependent coverage.

Fiduciary Funds. The City's Fiduciary Funds account for resources received and held by the City as trustee or for which the City acts as the agent for individuals. At June 30, 2002, the amounts reported under programs in which the City provided custodial responsibilities were \$30,601 for the Non-expendable Trust Fund Cemetery and \$122,653 for the Civic Center Agency Fund.

Debt Administration. At June 30, 2002, outstanding general obligation bonds totaled \$24,400,000 including \$12,582,172 outstanding for water system improvements. Debt service on bonds issued for water purposes is provided by water operations. The remaining \$11,817,827 is considered to be net direct tax supported debt. The General Statutes of North Carolina provide that net debt may not exceed eight percent of the present market value of taxable property as certified by the county tax assessor. For the current fiscal year, the City's rate is .23 percent. This provides a legal debt margin of \$405,092,788. Monitoring of refunding opportunities is regularly done on the entire debt portfolio. The City has an Aa2 rating from Moody's Investors Services and an AA rating from Standard & Poor's Corporation on general obligation bond issues.

Cash Management. The investment policy of the City is guided in large part by State Statute, whereby investments in certificates of deposits, banker's acceptances, commercial paper, United States government and agency securities and the North Carolina Capital Management Trust, a Securities and Exchange Commission-registered Mutual fund. In FY 2002, the City earned \$1,140,113 including earnings from Proprietary funds. These earnings are equivalent to approximately 2.2 cents on the FY 2002 ad valorem tax rate.

General Fixed Assets. The general fixed assets of the City are those fixed assets used in the performance of general governmental functions and exclude the fixed assets of proprietary funds. As of June 30, 2002, the general fixed assets of the City amounted to \$79,750,079. Depreciation of general fixed assets is not required in the City's accounting system

Risk Management. The City maintains a self-insurance program for certain general liability and casualty risks, fringe benefits and its workers compensation obligations. Revenues and expenses for this program are recorded in the Risk and Benefits Management Fund (an internal service fund.) For all of its self-insured retention programs, the City retains the services of outside third party administrators for the professional management and adjustment of claims. The City is protected by the placement of a \$15,000,000 excess-only liability program across the liability lines under the contract. The City also insures its real and personal property holdings, including its dams, for a total of \$240,000,000 in assets. For the City's self-insured Workers Compensation and Employer Liability, the City retains out-of-pocket losses for \$300,000 on specific claims and an aggregate loss of \$3,600,000 over a three year period. The City carries a \$3,000,000 specific and aggregate excess over these deductibles, with the aggregate excess attachment of 75 percent of the annual loss over a three year period.

OTHER INFORMATION

Independent Audit. North Carolina General Statutes require an annual independent audit of all local government units in the state. Crisp Hughes Evans LLP, a firm of independent certified public accountants, has audited the financial statements of the City and their opinion has been included in this report. Their audit was made in accordance with auditing standards generally accepted in the United States of America and, included examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements as well as assessing the accounting principles used and significant estimates made by management. Their opinion indicates that the accompanying general purpose financial statements for the fiscal year ended June 30, 2002 have been prepared in conformity with accounting principles generally accepted in the United States of America.

Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2001. This was the twenty-second time that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized Comprehensive Annual Financial Report whose contents conform to program standards. This report satisfied both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement for Excellence in Financial Reporting is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to conform to certificate requirements and it is being submitted to the GFOA to determine its eligibility for another award.

Future Financial Reporting Requirements. The City is required to implement GASB Statement No. 34 "Basis Financial Statements and Management Discussion and Analysis for the State and Local Governments" effective for the fiscal year ending June 30, 2003. The City anticipates complete implementation of the Statement requirements.

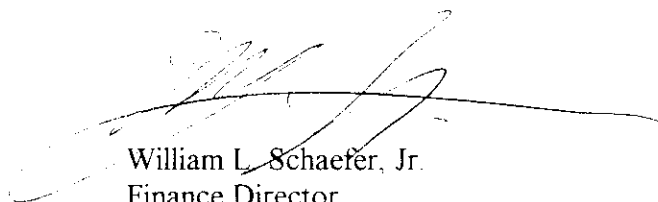
Acknowledgments. We recognize that responsibility for the contents of this report is the City's, but it would be inappropriate not to mention the cooperation of our independent auditors, Crisp Hughes Evans LLP, in its preparation. Also, this report could not have been prepared without the dedicated efforts of the City's Accounting Division as well as the cooperation of the other departments and divisions of the City. We would like to express our appreciation to all of these people for their contributions to this report. We would also like to thank the members of the City Council for their interest and support.

As required by North Carolina General Statute 159-34, a copy of this report will be filed with the Secretary of the North Carolina Local Government Commission. In addition, a copy will be sent to the City Clerk to be available for public inspection.

Sincerely,



James L. Westbrook, Jr.
City Manager



William L. Schaefer, Jr.
Finance Director

Independent Auditors' Report

The Honorable Mayor and Members of the City Council of the
City of Asheville, North Carolina

We have audited the general-purpose financial statements of the City of Asheville, North Carolina (the "City"), as of and for the year ended June 30, 2002. These general-purpose financial statements are the responsibility of the City of Asheville's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. We did not audit the financial statements of the Asheville ABC Board. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Asheville ABC Board, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the general-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the City of Asheville, North Carolina, as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated October 18, 2002, on our consideration of the City of Asheville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the City of Asheville, North Carolina, taken as a whole. The combining and individual fund financial statements and other schedules are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

The other data in this report, designated as "Statistical Section" in the table of contents, has not been audited by us and, accordingly, we express no opinion on such data.

October 18, 2002

Crisp Hughes Evans LLP

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